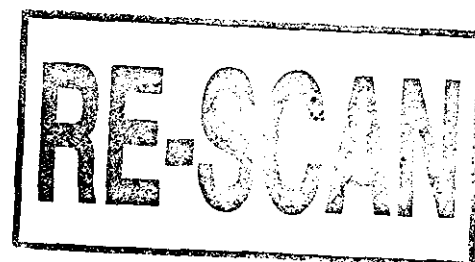


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**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 1998**



**LUBBOCK FINE  
Chartered Accountants  
Russell Bedford House  
City Forum, 250 City Road  
London EC1V 2QQ**



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**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

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Consolidated cash flow statement	9
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**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

**OFFICERS AND PROFESSIONAL ADVISERS**

<b>Directors:</b>	Martin Mills Nigel Bolt Andrew Heath James Wyllie
<b>Secretary:</b>	Nigel Bolt
<b>Registered Office:</b>	17-19 Alma Road London SW18 1AA
<b>Registered Number:</b>	1414045 (England and Wales)
<b>Auditors:</b>	Lubbock Fine Chartered Accountants Russell Bedford House City Forum, 250 City Road London EC1V 2QQ
<b>Bankers:</b>	Coutts & Co 440 Strand London WC1R 0QS
<b>Solicitors:</b>	Morgan Cole Buxton Court 3 West Way Oxford OX2 0SZ

# **BEGGARS BANQUET GROUP LIMITED AND SUBSIDIARY COMPANIES**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998**

### **Financial Statements**

The directors present their report and financial statements for the year ended 31 December 1998.

### **Principal Activity**

The group is principally engaged in the sale of compact discs, records and tapes and music publishing.

### **Review Of The Year**

The group continued to trade satisfactorily during the year although, as expected, turnover fell from £25.6m to £18.9m.

In March 1998 the company increased its shareholding in Nation Records Limited to 50%.

During the year a subsidiary company, XL Recordings Limited, established a new joint venture company called Mowax Labels Limited.

### **Future Developments**

In September 1999 the company increased its shareholding in 4 A.D. Limited to 100%.

The directors anticipate that the group will continue to trade satisfactorily.

### **Results**

The profit of the group after tax and minority interest was £1,101,188 (1997 - £2,162,516) details of which are given in the attached financial statements.

### **Dividends**

Interim dividends paid are detailed in note 9 to the financial statements. The directors do not recommend payment of a final dividend for the year ended 31 December 1998.

If this recommendation is approved £1,041,188 will be added to the group's reserves.

### **Fixed Assets**

Changes in fixed assets are shown in the notes to the financial statements.

In the opinion of the directors the market value of interests in land and buildings held as fixed assets at the balance sheet date were in excess of their book value.

**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTD)**

**Donations**

The group made charitable donations in the year totalling £2,520.

**Directors' Interest**

The interest of the directors in the shares of the company at the beginning and end of the year was as follows:

<b>Beneficial holding:</b>	<b>31 December 1998</b>		<b>31 December 1997</b>	
Martin Mills	98 'A'	Ordinary	98 'A'	Ordinary
	100 'B'	Ordinary	100 'B'	Ordinary
	2 'C'	Preferred (Trustee)	2 'C'	Preferred (Trustee)
Nigel Bolt	-		-	
Andrew Heath	-		-	
James Wyllie	-		-	

Martin Mills also had the following interest in the shares of the subsidiary undertakings at the beginning and end of the year:

	<b>Number of Ordinary Shares</b>	
	<b>31 December 1998</b>	<b>31 December 1997</b>
Beggar's Banquet Records Limited	24	24
Beggar's Banquet Music Limited	24	24
Beggars Banquet Retail Limited	7,560	7,560
Beggars Banquet Limited	24	24
Beggars Banquet Communications Limited	24	24
Mantra Recordings Limited	24	24

**Year 2000**

The directors undertook a review to assess the potential impact of the Year 2000 'millennium bug' upon the group. The results of this review appear to indicate that millennium compliance has been achieved as there have been no material problems. During the year the costs incurred by the group in respect of the review, action plan and remedial work were not significant.

**Changeover to the Euro**

The directors have considered the implications of the introduction of the Euro. The group have taken measures to identify its likely exposure to Euro currency transactions with its customers and suppliers.

**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTD)**

**Directors' Responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company and the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

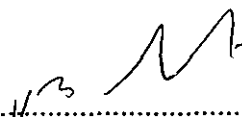
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Auditors**

Lubbock Fine, have indicated their willingness to accept re-appointment as auditors to the company and the group and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Jeff Gitter, a partner of Lubbock Fine, is a joint trustee of the 2 'C' preferred shares in Beggars Banquet Group Limited.

Signed on behalf of the board on .....27.3.2000.....

  
.....  
**N Bolt Secretary**

**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

**AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the financial statements on pages 6 to 25 which have been prepared under the historical cost convention and the accounting policies set out on page 10 to 12.

**Respective responsibilities of directors and auditors**

As described in the directors' report, the directors of the company are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming an opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Lubbock Fine*

**Lubbock Fine**  
Chartered Accountants  
Registered Auditors

Date: 27.3.2000.....

Russell Bedford House  
City Forum, 250 City Road  
London EC1V 2QQ

**BEGGARS BANQUET GROUP LIMITED**  
**AND SUBSIDIARY COMPANIES**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED**  
**31 DECEMBER 1998**

	Note	1998 £	1997 £
<b>TURNOVER</b>	2	18,900,411	25,584,680
Cost of sales		(11,615,911)	(12,878,522)
<b>GROSS PROFIT</b>		<u>7,284,500</u>	<u>12,706,158</u>
Net operating expenses	3	(6,074,466)	(7,901,783)
<b>OPERATING PROFIT</b>	4	<u>1,210,034</u>	<u>4,804,375</u>
Share in operating profit - Associate		147,879	(463,148)
- Joint venture		(26,443)	-
Other operating income		433,548	243,324
Other interest receivable and similar income	5	284,163	144,408
Interest payable and similar charges	6	(8,443)	(9,020)
<b>PROFIT ON ORDINARY ACTIVITIES</b>		<u>2,040,738</u>	<u>4,719,939</u>
<b>BEFORE TAXATION</b>			
Tax on profit on ordinary activities	7	(592,592)	(1,610,657)
<b>PROFIT ON ORDINARY ACTIVITIES</b>		<u>1,448,146</u>	<u>3,109,282</u>
<b>AFTER TAXATION</b>			
Minority interest (Equity)		(346,958)	(946,766)
<b>PROFIT ATTRIBUTABLE TO</b>		<u>1,101,188</u>	<u>2,162,516</u>
<b>SHAREHOLDERS</b>			
Dividend	9	(60,000)	(280,000)
<b>RETAINED PROFIT FOR THE</b>		<u>1,041,188</u>	<u>1,882,516</u>
<b>FINANCIAL YEAR</b>	21		

The group's turnover and expenses all relate to continuing operations.

There are no recognised gains or losses other than the profit for the financial year shown above.

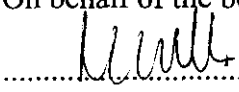


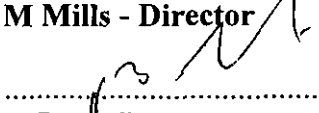
**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1998**

	Note	1998 £	1997 £
<b>FIXED ASSETS</b>			
Tangible assets	10	1,799,818	879,111
Investments	12	265,963	126,241
		<u>2,065,781</u>	<u>1,005,352</u>
<b>CURRENT ASSETS</b>			
Stocks	13	363,576	421,437
Debtors	14	3,829,232	6,007,197
Investments	15	61,024	-
Cash at bank and in hand		3,224,494	3,197,613
		<u>7,478,326</u>	<u>9,626,247</u>
<b>CREDITORS</b>			
Amounts falling due within one year	16	(3,065,127)	(4,416,259)
		<u>4,413,199</u>	<u>5,209,988</u>
<b>NET CURRENT ASSETS</b>			
		<u>6,478,980</u>	<u>6,215,340</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
<b>CREDITORS</b>			
Amounts falling due after one year	17	(1,219,110)	(1,959,776)
Provision for liabilities and charges	18	(440,834)	(331,198)
		<u>4,819,036</u>	<u>3,924,366</u>
<b>NET ASSETS</b>			
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	200	200
Group reserves	21	4,276,060	3,234,872
	20	4,276,260	3,235,072
Minority interest		542,776	689,294
		<u>4,819,036</u>	<u>3,924,366</u>
<b>ANALYSED AS</b>			
Equity interests		4,819,034	3,924,364
Non-Equity interests		2	2
		<u>4,819,036</u>	<u>3,924,366</u>

On behalf of the board

  
.....  
**M Mills - Director**

  
.....  
**N Bold - Director**

Date: .....27.3.2000.....

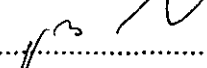
# BEGGARS BANQUET GROUP LIMITED

## COMPANY BALANCE SHEET AT 31 DECEMBER 1998

	Note	1998 £	1997 £
<b>FIXED ASSETS</b>			
Tangible assets	11	548,935	461,512
Investments	12	252,165	237,165
		<u>801,100</u>	<u>698,677</u>
<b>CURRENT ASSETS</b>			
Debtors	14	2,626,424	2,059,900
Investments	15	61,024	-
Cash at bank and in hand		24,895	511,142
		<u>2,712,343</u>	<u>2,571,042</u>
<b>CREDITORS</b>			
Amounts falling due within one year	16	(431,519)	(1,545,240)
		<u>2,280,824</u>	<u>1,025,802</u>
<b>NET CURRENT ASSETS</b>			
		<u>2,280,824</u>	<u>1,025,802</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
Provision for liabilities and charges	18	(6,976)	(6,976)
		<u>3,074,948</u>	<u>1,717,503</u>
<b>NET ASSETS</b>			
		<u>3,074,948</u>	<u>1,717,503</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	200	200
Profit and loss account		3,074,748	1,717,303
		<u>3,074,948</u>	<u>1,717,503</u>
<b>ANALYSED AS</b>			
Equity interests		3,074,946	1,717,501
Non-Equity interests		2	2
		<u>3,074,948</u>	<u>1,717,503</u>

On behalf of the board

  
 .....  
**M Mills - Director**

  
 .....  
**N Bolt - Director**

Date: .....27.3.2000.....

**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED  
31 DECEMBER 1998**

	Note	£	1998 £	£	1997 £
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	22a		2,917,385		3,416,094
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>					
Interest received and other income		717,711		387,732	
Interest paid		(8,443)		(9,020)	
Dividend to minority interest		<u>(487,200)</u>		<u>(510,000)</u>	
			222,068		(131,288)
<b>TAXATION</b>					
UK Corporation tax paid including advance corporation tax			(1,992,617)		(580,644)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>					
Payments to acquire tangible fixed assets		(1,113,145)		(385,230)	
Receipts from sale of tangible fixed assets		26,811		29,250	
Payments to acquire associate		(15,000)		(20,000)	
Purchase of current asset investments		<u>(61,024)</u>		<u>-</u>	
			(1,162,358)		(375,980)
<b>ACQUISITIONS AND DISPOSALS</b>			-		(77,500)
<b>EQUITY DIVIDENDS PAID</b>			(60,000)		(280,000)
<b>(DECREASE)/INCREASE IN CASH</b>	22b		<u>(75,522)</u>		<u>1,970,682</u>

# **BEGGARS BANQUET GROUP LIMITED AND SUBSIDIARY COMPANIES**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998**

### **1. ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the financial statements are set out below and have remained unchanged from the previous year and also have been consistently applied within the same accounts.

#### **Basis of Preparation of Financial Statements**

The financial statements have been prepared under the historical cost convention.

The effect of events in relation to the year ended 31 December 1998 which occurred before the date of approval of the financial statements by the Board of Directors, have been included in the statements to the extent required to show a true and fair view of the state of affairs at 31 December 1998 and of the results for the year ended on that date.

#### **Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the parent company and its subsidiary undertakings made up to 31 December 1998.

- i No profit and loss account is presented for Beggars Banquet Group Limited as permitted by section 230 of the Companies Act 1985.
- ii The results and net assets of the group's share of participating interest investments are accounted for on an equity basis from the date of acquisition.
- iii Goodwill, being the difference between consideration over the fair value on acquisition of subsidiary undertakings, arising on consolidation is written off immediately against reserves. Negative goodwill is credited to a consolidation reserve.

#### **Joint Ventures and Associated Undertakings**

Where the group has an investment in an entity which is sufficient to give the group a participating interest, and over which it is in a position to exercise significant influence, the entity is treated as an associated undertaking and is accounted for using the equity method.

Entities in which the group holds an interest on a long-term basis, and are jointly controlled by the group and one or more other parties under a contractual arrangement, are treated as joint ventures and are accounted for using the equity method.

#### **Deferred Income**

Deferred income represents non-returnable advances on royalties receivable from other record companies. These advances are credited to revenue as the royalty income arises or where the probability of future income in respect thereof is remote.

**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 1998**

**ACCOUNTING POLICIES (continued)**

**Advances To Artists**

Advances to artistes represents advances made direct to artistes together with recording or other costs made on behalf of artistes, under contract. These advances, which are only recoverable against future royalties, are charged to revenue as they are recouped or where the probability of future recoupment in respect thereof is unlikely.

**Advances to Writers**

These advances, which are only recoverable against future royalties, are charged to revenue as they are recouped or where the probability of future recoupment in respect thereof is unlikely.

**Depreciation And Amortisation**

Depreciation and amortisation has been provided to write off tangible fixed assets over their estimated useful lives at the following rates:

Freehold property	- 2% on cost
Leasehold property	- In equal annual instalments over the period of the lease.
Fixtures, fittings and office equipment	- 20% and 25% per annum on a reducing balance method.
Computer equipment	- 25% per annum on a reducing balance method.
Motor vehicles	- 25% per annum on a reducing balance method.

**Investment Properties**

In accordance with standard accounting practice, investment properties are revalued annually on an open market value basis and the aggregate surplus or deficit is transferred to an investment revaluation reserve. No depreciation or amortisation is provided in respect of freehold investment properties and leasehold properties with a period of over 20 years unexpired on the leases.

The directors believe that the accounting policy is necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of the factors reflected in the annual valuation and the amount attributable to this factor cannot be separately identified or quantified.

**Foreign Currencies**

- i) Results and assets and liabilities of the U.S. subsidiary are converted to sterling at the rate of exchange ruling at the date of the balance sheet. Exchange differences on consolidation are dealt with through reserves.

**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 1998**

**ACCOUNTING POLICIES (continued)**

- ii) Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances are translated into sterling at the exchange rate ruling on the balance sheet date. Differences arising on exchange are dealt with through the profit and loss account.

**Stocks**

Stocks have been valued on an average cost basis at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

**Deferred Taxation**

Deferred taxation is provided on the liability method to take account of timing differences between the treatment of certain items for accounting purposes and their treatment for tax purposes. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is considered that a net liability may crystallise.

**Operating Leases**

Leasing and rental costs are charged to operating profits as they arise.

**Pension Costs**

Pension scheme contributions are charged to operating profits as they arise and in accordance with the scheme rules set out in note 24.

**Investments**

Current asset investments are stated at the lower of cost and net realisable value.

**2. TURNOVER**

Turnover is the amount derived from the provision of goods and services falling within the group's ordinary activities, after deduction of trade discounts, value added tax and any other taxes based on turnover.

The turnover attributable to the principal activities of the group is as follows:

	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>
Sales and distribution of compact discs, records and tapes	9,017,712	18,017,628
Royalties receivable	9,882,699	7,567,052
	<u>18,900,411</u>	<u>25,584,680</u>
Turnover is analysed by geographical markets, as follows:		
U.K.	9,459,360	17,658,646
Europe	3,215,487	3,177,906
North America	5,205,832	3,567,030
Rest of the World	1,019,732	1,181,098
	<u>18,900,411</u>	<u>25,584,680</u>

**BEGGARS BANQUET GROUP LIMITED**  
**AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 1998 (CONTD)**

<b>3. NET OPERATING EXPENSES</b>	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>
Distribution costs	2,204,591	4,652,101
Administrative expenses	3,869,875	3,249,682
	<u>6,074,466</u>	<u>7,901,783</u>
 <b>4. OPERATING PROFIT</b>	 <b>1998</b>	 <b>1997</b>
	<b>£</b>	<b>£</b>
<b>a) Operating profit is stated after charging/(crediting):</b>		
Directors' remuneration as executives	329,964	255,681
Auditors' remuneration - audit	48,250	44,750
- other services	1,775	1,750
Depreciation and amortisation of owned assets	164,871	128,601
(Profit)/Loss on disposal of fixed assets	(817)	14,788
Operating leases – hire of equipment	3,256	1,977
Operating leases – other assets	61,611	72,881
Foreign exchange (profit)loss	<u>(11,611)</u>	<u>22,914</u>
 <b>b) Directors' remuneration</b>		
The highest paid director	<u>247,850</u>	<u>150,648</u>
 <b>c) Particulars of employees</b>		
The average number of persons employed by the group, including the directors during the year was:		
	<b>1998</b>	<b>1997</b>
Management	8	7
Administration and selling	50	48
	<u>58</u>	<u>55</u>
 Their total remuneration was:		<b>£</b>
Wages and salaries	1,637,021	1,581,399
Social security costs	165,009	160,263
	<u>1,802,030</u>	<u>1,741,662</u>

There is one director to whom retirement benefits are accruing under a money purchase pension scheme in respect of qualifying services (1997 – 1).

**BEGGARS BANQUET GROUP LIMITED**  
**AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 1998 (CONTD)**

**5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME**

	1998	1997
	£	£
Bank interest receivable	281,783	139,450
Sundry interest	2,380	4,958
	<u>284,163</u>	<u>144,408</u>

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	1998	1997
	£	£
On bank and other borrowings wholly repayable within five years	8,443	8,523
Sundry interest	-	497
	<u>8,443</u>	<u>9,020</u>

**7. TAXATION**

	1998	1997
	£	£
U.K. corporation tax at 31% (1997 - 31½%)	514,627	1,464,361
Transfer to deferred tax	109,636	147,945
Irrecoverable withholding tax	6,303	19,003
Associates	(14,027)	(47,832)
Joint Venture	(4,258)	-
(Over)Underprovision in previous year	(19,689)	27,180
	<u>592,592</u>	<u>1,610,657</u>

**8. RETAINED PROFIT**

Of the consolidated profit for the year an amount of £1,357,445 (1997 – £1,365,728) has been dealt with in the financial statements of the parent undertaking. The figures are stated before adjustments for inter group items.

**9. DIVIDENDS**

	1998	1997
	£	£
Interim dividends to equity shareholders	<u>60,000</u>	<u>280,000</u>



**BEGGARS BANQUET GROUP LIMITED  
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTD)**

**10. TANGIBLE FIXED ASSETS - GROUP**

<b>Cost/Valuation</b>	<b>Freehold Property £</b>	<b>Investment Property £</b>	<b>Short Leasehold Property £</b>	<b>Fixtures, Fittings and Equipment £</b>	<b>Motor Vehicles £</b>	<b>Total £</b>
At 1 January 1998	302,099	164,960	108,367	554,695	228,027	1,358,148
Additions	847,231	-	-	151,771	114,143	1,113,145
Disposals	-	-	-	-	(57,066)	(57,066)
At 31 December 1998	<u>1,149,330</u>	<u>164,960</u>	<u>108,367</u>	<u>706,466</u>	<u>285,104</u>	<u>2,414,227</u>
<b>Depreciation</b>						
At 1 January 1998	34,109	-	70,341	304,754	69,833	479,037
Provision for the year	14,505	-	4,401	87,074	58,891	164,871
Elimination on disposal	-	-	-	-	(29,499)	(29,499)
At 31 December 1998	<u>48,614</u>	<u>-</u>	<u>74,742</u>	<u>391,828</u>	<u>99,225</u>	<u>614,409</u>
<b>Net Book Value</b>						
At 31 December 1998	<u>1,100,716</u>	<u>164,960</u>	<u>33,625</u>	<u>314,638</u>	<u>185,879</u>	<u>1,799,818</u>
At 31 December 1997	<u>267,990</u>	<u>164,960</u>	<u>38,026</u>	<u>249,941</u>	<u>158,194</u>	<u>879,111</u>

The investment property was valued by the directors at 31 December 1998 on an open market value basis. If the property was sold at this valuation the potential tax liabilities would be £nil.

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**11. TANGIBLE FIXED ASSETS – COMPANY**

	<b>Freehold Buildings £</b>	<b>Short Leasehold Property £</b>	<b>Fixtures, Fittings and Equipment £</b>	<b>Motor Vehicles £</b>	<b>Total £</b>
At 1 January 1998	302,099	32,820	352,887	44,206	732,012
Additions	-	-	121,900	59,140	181,040
Disposal	-	-	-	(39,267)	(39,267)
At 31 December 1998	<u>302,099</u>	<u>32,820</u>	<u>474,787</u>	<u>64,079</u>	<u>873,785</u>
<b>Depreciation</b>					
At 1 January 1998	34,109	8,817	204,999	22,575	270,500
Provision for the year	6,042	657	52,700	14,218	73,617
Disposal	-	-	-	(19,267)	(19,267)
At 31 December 1998	<u>40,151</u>	<u>9,474</u>	<u>257,699</u>	<u>17,526</u>	<u>324,850</u>
<b>Net Book Value</b>					
At 31 December 1998	<u>261,948</u>	<u>23,346</u>	<u>217,088</u>	<u>46,553</u>	<u>548,935</u>
<i>At 31 December 1997</i>	<u>267,990</u>	<u>24,003</u>	<u>147,888</u>	<u>21,631</u>	<u>461,512</u>

**12. FIXED ASSET INVESTMENTS**

		<b>1998 £</b>	<b>1997 £</b>
<b>GROUP</b>			
Associated undertakings	(a)	288,148	126,241
Investment in joint venture	(b)	(22,185)	-
		<u>265,963</u>	<u>126,241</u>

**a) Associated undertakings**

	<b>Share of net tangible assets £</b>
<b>Cost</b>	
At 1 January 1998	126,241
Share of post acquisition retained profit in the year	<u>161,907</u>
At 31 December 1998	<u>288,148</u>

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**12. FIXED ASSETS INVESTMENTS (continued)**

	1998 £	1997 £
<b>Group's share of turnover of associates</b>		<u>1,859,119</u>
<b>Group's share of assets and liabilities of associates</b>		
Share of assets		
Fixed assets	238,672	
Current assets	<u>645,166</u>	
		883,838
Share of liabilities		
Due within one year	(373,708)	
Due after one year	<u>(233,922)</u>	
		<u>(607,630)</u>
Share of net assets		<u>276,208</u>
<b>b) Investments in joint venture</b>		£
At 1 January 1998		-
Share of loss retained by joint venture		<u>(22,185)</u>
At 31 December 1998		<u>(22,185)</u>
	1998 £	1997 £
<b>Group's share of assets and liabilities of joint venture</b>		
Group's share of turnover of joint venture		<u>-</u>
Share of loss before tax	(26,443)	
Taxation	<u>4,258</u>	
Share of loss after tax		<u>(22,185)</u>
Share of assets		
Fixed assets	3,875	
Current assets	<u>27,766</u>	
		31,641
Share of liabilities		
Due within one year	<u>(53,446)</u>	
		<u>(53,446)</u>
Share of net liabilities		<u>(21,805)</u>

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**FIXED ASSETS INVESTMENTS (continued)**

<b>COMPANY</b>	<b>Subsidiary Undertakings</b>	<b>Associates</b>	<b>Total</b>
<b>Cost</b>	<b>£</b>	<b>£</b>	<b>£</b>
At 1 January 1998	221,005	40,076	261,081
Additions	-	15,000	15,000
At 31 December 1998	<u>221,005</u>	<u>55,076</u>	<u>276,081</u>
<b>Depreciation</b>			
At 1 January 1998 and 31 December 1998	<u>23,916</u>	<u>-</u>	<u>23,916</u>
<b>Net Book Value</b>			
At 31 December 1998	<u>197,089</u>	<u>55,076</u>	<u>252,165</u>
At 31 December 1997	<u>197,089</u>	<u>40,076</u>	<u>237,165</u>

The group or the company holds 20% or more of the nominal value of the share capital of the following companies:

<b>Name</b>	<b>Nature of Business</b>	<b>Percentage and Class (Proportion held)</b>
<b>Subsidiary Undertakings</b>		
Beggars Banquet Recordings (USA) Inc.	Promotion, marketing and licensing of records	100% Ordinary
Beggars Banquet Retail Limited	Retail record sales	94.96% Ordinary
Too Pure Limited	Production and licensing of sound recordings	81% Ordinary
Beggar's Banquet Records Limited	Production and licensing of sound recordings	76% Ordinary
XL Recordings Limited	Production and licensing of sound recordings	76% Ordinary
Beggar's Banquet Music Limited	Music Publishing	76% Ordinary
Beggars Banquet Limited	Wholesale promotion and marketing	76% Ordinary
Wiiija Records Limited	Production and licensing of sound recordings	76% Ordinary
Mantra Recordings Limited	Production and licensing of sound recordings	76% Ordinary

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<b>Name</b>	<b>Nature of Business</b>	<b>Percentage and Class (Proportion held)</b>
<b>Subsidiary Undertakings</b>		
Beggars Banquet Communications Limited	Property investment	76% Ordinary
<b>Associated Undertakings</b>		
4 A.D. Limited	Production and licensing of sound recordings	50% Ordinary
4 A.D. U.S. Inc	Promotion and marketing	50% Ordinary
Nation Records Limited	Production and licensing of sound recordings	50% Ordinary
<b>Joint Ventures</b>		
*Mowax Labels Limited	Production and licensing of sound recordings	38% Ordinary

All of the above companies are registered in England and Wales, except for 4 AD U.S. Inc. and Beggars Banquet Records (USA) Inc. which were registered in USA.

\* Held by a subsidiary undertaking.

13. <b>STOCKS</b>	<b>Group</b>		<b>Company</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Finished goods for resale	<u>363,576</u>	<u>421,437</u>	<u>-</u>	<u>-</u>
14. <b>DEBTORS</b>	<b>Group</b>		<b>Company</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Trade debtors	1,442,408	2,441,536	64,679	43,139
Amounts owed by subsidiary undertakings	-	-	2,390,535	1,861,326
Amounts owed by associated undertaking	30,412	-	30,412	-
Other debtors	1,402,359	1,140,632	112,101	104,611
Corporation tax recoverable	90,269	53,267	-	39,101
Prepayments and accrued income	<u>863,784</u>	<u>2,371,762</u>	<u>28,697</u>	<u>11,723</u>
	<u>3,829,232</u>	<u>6,007,197</u>	<u>2,626,424</u>	<u>2,059,900</u>

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**15. CURRENT ASSET INVESTMENTS – COMPANY AND GROUP**

	1998	1997
At cost	£	£
Unlisted investments - overseas	<u>61,024</u>	<u>-</u>

**16. CREDITORS**

Amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Bank overdrafts	172,278	69,875	82,557	46,278
Trade creditors	2,230,792	2,378,322	17,152	10,259
Amounts due to subsidiary undertakings	-	-	-	1,190,537
Amounts due to associated undertakings	-	31,282	-	31,297
Corporation tax	2,405	1,407,175	525	-
Social security and other taxes	134,100	90,520	126,007	40,069
Advance corporation tax payable	1,800	50,000	-	50,000
Other creditors	223,664	160,301	159,760	136,791
Accruals and deferred income	300,088	228,784	45,518	40,009
	<u>3,065,127</u>	<u>4,416,259</u>	<u>431,519</u>	<u>1,545,240</u>

**Security**

The company's bank overdraft is secured by way of a mortgage debenture as detailed in note 23.

**17. CREDITORS**

Amounts falling due after one year

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Accruals and deferred income	<u>1,219,110</u>	<u>1,959,776</u>	<u>-</u>	<u>-</u>

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**18. PROVISIONS FOR LIABILITIES AND CHARGES**

**Deferred taxation**

The amount provided and the potential liability for the deferred taxation is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Accelerated capital allowances	4,158	8,046	6,976	6,976
Arising on net royalty timing differences	436,676	323,152	-	-
	<u>440,834</u>	<u>331,198</u>	<u>6,976</u>	<u>6,976</u>
At 1 January 1998	331,198	183,253	6,976	6,976
Transfer to profit and loss account	109,636	147,945	-	-
At 31 December 1998	<u>440,834</u>	<u>331,198</u>	<u>6,976</u>	<u>6,976</u>

**19. SHARE CAPITAL**

	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>
Allotted, Called Up and Fully Paid		
98 'A' Ordinary shares of £1 each	98	98
100 'B' Ordinary shares of £1 each	100	100
2 'C' Preferred shares of £1 each	<u>2</u>	<u>2</u>
	<u>200</u>	<u>200</u>
Authorised		
998 'A' Ordinary shares of £1 each	998	998
1,000 'B' Ordinary shares of £1 each	1,000	1,000
2 'C' Preferred shares of £1 each	<u>2</u>	<u>2</u>
	<u>2,000</u>	<u>2,000</u>

The holders of Preferred shares have:

- No right to a dividend or other distribution (other than on a liquidation or sale) of the company unless majority of the votes attached to the 'A' Ordinary shares then in issue are cast in favour of such a dividend or distribution.
- The right to receive on liquidation or sale of the company the preferred sum in priority to any other distribution of assets of the company.
- No right to vote at any meeting of the company other than at a meeting of holders of 'C' Preferred shares.

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**20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<b>1998</b>	<b>1997</b>
<b>Group</b>	<b>£</b>	<b>£</b>
Profit for the financial year	1,101,188	2,162,516
Dividends to equity shareholders	(60,000)	(280,000)
Disposal of part interest in subsidiary	-	42,499
Goodwill on acquisition – written off	-	(100,378)
Adjustments to minority dividend in prior year	-	41,400
Net additions to shareholders' funds	1,041,188	1,866,037
Opening shareholders' funds	3,235,072	1,369,035
Closing shareholders' funds	4,276,260	3,235,072

	<b>1998</b>	<b>1997</b>
<b>Company</b>	<b>£</b>	<b>£</b>
Profit for the financial year	1,417,445	1,645,728
Dividends to equity shareholders	(60,000)	(280,000)
	1,357,445	1,365,728
Opening shareholders' funds	1,717,503	351,775
Closing shareholders' funds	3,074,948	1,717,503

**21. STATEMENT OF MOVEMENT IN RESERVES**

	<b>Profit and Loss account</b>	<b>Other Reserve</b>	<b>Total</b>
<b>Group</b>	<b>£</b>	<b>£</b>	<b>£</b>
At 1 January 1998	3,206,701	28,171	3,234,872
Retained profit for the year	1,041,188	-	1,041,188
At 31 December 1998	4,247,889	28,171	4,276,060

	<b>Profit and Loss account</b>
<b>Company</b>	<b>£</b>
At 1 January 1998	1,717,303
Profit for the financial year	1,357,445
At 31 December 1998	3,074,748



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**22. NOTES TO THE CASH FLOW STATEMENT**

**a) Reconciliation of operating profits to net cash inflow from operating activities**

	1998 £	1997 £
Operating profit	1,210,034	4,804,375
Depreciation charges	164,871	128,601
(Profit)/Loss on disposal of fixed assets	(817)	14,788
Decrease (Increase) in stocks	57,860	(156,176)
Decrease(Increase) in debtors	2,214,967	(1,371,707)
Decrease in creditors	(729,530)	(3,787)
	<u>2,917,385</u>	<u>3,416,094</u>

**b) Reconciliation of cashflow to movement in net funds**

	1998 £	1997 £
Net (decrease)increase in cash	<u>(75,522)</u>	<u>1,970,682</u>
Change in net fund resulting from cashflow	(75,522)	1,970,682
Net fund at 1 January 1998	<u>3,127,738</u>	<u>1,157,056</u>
Net fund at 31 December 1998	<u>3,052,216</u>	<u>3,127,738</u>

**c) Analysis of net funds**

	1997 £	Cashflow £	1998 £
Cash at bank and in hand	3,197,613	26,881	3,224,494
Bank overdrafts	(69,875)	<u>(102,403)</u>	(172,278)
		<u>(75,522)</u>	

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**23. CONTINGENT LIABILITIES**

- a) The bankers have been given composite guarantees dated 5 May 1998 over the facilities of the following companies:

Beggar's Banquet Records Limited  
Beggars Banquet Retail Limited  
XL Recordings Limited  
Beggars Banquet Limited  
Mantra Recordings Limited  
Too Pure Limited  
Wiiija Records Limited

Any liability arising from the composite cross guarantee is secured by mortgages debenture dated 21 August 1989, 18 December 1996 and 5 May 1998 over all the company's assets, incorporating specific charge over book debts. These amounted to £Nil at 31 December 1998.

- b) At the balance sheet date, the company had no capital commitments.

**24. PENSION ARRANGEMENTS**

**Defined contribution scheme**

The company maintains a pension scheme for one of its directors. The scheme, which operates on a defined contribution money purchase basis, provides for the payment of the full contribution by the company. The assets of the scheme are held separately from those of the company in an independently administered fund. The charge for 1998 - £600 (1997 - £1,750).

**25. FINANCIAL COMMITMENTS**

At the balance sheet date the group had annual commitments under non-cancellable operating leases which expire:

	1998	1997
	£	£
Within one year	10,750	11,000
Between two and five years	50,000	45,750
	<u>60,750</u>	<u>56,750</u>

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**26. FINANCIAL TRANSACTIONS WITH DIRECTORS**

- a) During the year £98,741 was paid to James Wyllie, a director, in respect of professional services provided.
- b) £46,990 was paid to Heathwave Music Limited for consultancy services. Andrew Heath is both a director and majority shareholder of this company,
- c) During the year Beggar's Banquet Music Limited, a subsidiary undertaking, received all of its income totalling £317,187, from Momentum Music Limited a company in which Martin Mills and Andrew Heath are both directors and major shareholders.
- d) Management charges amounting to £299,414 were received from 4 AD Limited, an associated undertaking in which Martin Mills is a director.
- e) A proportion of turnover was generated through two distribution companies, both of which Martin Mills is a director. The transactions in the year together with the associated costs were as follows:

	<b>Vital Distribution</b>	
	<b>Limited</b>	<b>Allopen Limited</b>
	<b>£</b>	<b>£</b>
Turnover	55,967	289,277
Costs	<u>19,393</u>	<u>37,624</u>

On 2 October 1998 the entire issued share capital of Allopen Limited was acquired by Vital Distribution Limited. Martin Mills has a 9% interest in Vital Distribution Limited via his shareholdings in companies which own shares in Vital Distribution Limited

- f) Included in other debtors is a loan of £52,600 to Yvonne Damant, the wife of Martin Mills. The loan is interest free, unsecured and repayable upon demand.

All the above transactions were at arms length.

**27. CONTROLLING PARTY**

The company is controlled by Martin Mills, by virtue of his shareholding as disclosed in the directors' report.